



Required Report - public distribution

Date: 5/15/2000

GAIN Report #JA0058

Japan

Tobacco

Annual - Revised

2000

Approved by:

Casey E. Bean

U.S. Embassy

Prepared by:

Masaoki Nagahama

Report Highlights:

With the number of farmers declining and crop area following a chronic downtrend, Japanese leaf tobacco production is leveling off. Japanese leaf imports in 1999, however, declined 2.5 %, offsetting 3% growth in the year before. Japanese cigarette market continues to show some stability but there are increasing indications for more social and legal restrictions eventually against smoking in sight, while the U.S. share accounts for a dominant 94% of the import market

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Tokyo [JA1], JA

TABLE OF CONTENTS	<u>1</u>
Executive Summary	<u>2</u>
-Tobacco, Unmfg., Total	<u>3</u>
PRODUCTION:	<u>3</u>
Crop Area;	<u>4</u>
Yield;	<u>5</u>
Production Policy:	<u>6</u>
Prices;	<u>6</u>
CONSUMPTION:	<u>7</u>
.....	<u>7</u>
TRADE:	<u>7</u>
Import Trade Matrix:	<u>8</u>
Export Trade Matrix:	<u>8</u>
POLICY:	<u>9</u>
-Tobacco, Mfg. Cigarettes:	<u>10</u>
PRODUCTION:	<u>10</u>
CONSUMPTION:	<u>11</u>
Consumer Taste Preferences;	<u>12</u>
Smoker Survey;	<u>13</u>
TRADE:	<u>15</u>
Import Trade Matrix	<u>16</u>
Export Trade Matrix	<u>16</u>
POLICY	<u>17</u>
1) Newly Proposed Cigarette Tax Hike Prevented;	<u>17</u>
2) Sale of the Japanese Government stock of JT...still up in the air.	<u>17</u>
3) Quantitative Restriction Target on Cigarette Consumption of a Government Task Force Against Smoking Lifted but New Policy Guidelines to Regulate Smoking Established.	<u>18</u>
Marketing:	<u>19</u>
PSD Tables:	<u>20</u>
-Tobacco, Unmfg. Total.	<u>20</u>
-Tobacco, Unmfg. Flue-Cured.	<u>21</u>
-Tobacco, Unmfg. Burley.	<u>22</u>
-Tobacco, Mfg. Cigarettes.	<u>23</u>

Executive Summary

With the number of tobacco farmers and planting area declining, Japanese tobacco leaf production continues to either level off, if not slide, on the year-to-year comparison. In 1999, Japan's domestic leaf tobacco production was 64,727 metric tons, up only slightly from 63,959 tons in the previous year. The number of tobacco farmers employed to produce this volume last year totaled 24,198, down 1,319 from the year before. This tobacco farm labor in 1999 represented 10.4% decline in 2 years, largely because of the rapid aging and voluntary termination of tobacco growing on the part of traditional tobacco farmers resulting from such "natural" illnesses and deaths. The crop area in 1999 was 24,757 hectares, down 2% from previous year.

Japanese leaf tobacco imports, on the other hand, growing 3% from previous year to 101,442 tons in 1998, declined 2.5% to 98,920 tons in 1999. However, the U.S. share as a key source of Japanese purchases from overseas, grew 2.6 percentage points from previous year to account for 43.6% of the total volume imported in 1999, attaining 43,187 metric tons. In the light of some stability of Japanese domestic cigarette market plus difficulties of securing adequate raw material leaf supplies at home for future cigarette production, monopolized by law by Japan Tobacco Inc., the share of imported leaf will continue to assume a critical importance.

On the manufactured cigarette front, the market, in terms of the number of cigarettes sold, declined 1.3 % in 1999 from previous year. Imported cigarettes, with the U.S. export accounting for 94 % of the total, continued to grow, however, attaining 24.7 % of the total market. Japan-produced domestic brands suffered a setback of 2.9% in cigarette sales. In terms of the total cigarette sales value, the market grew last year to 4.3 trillion Yen (approx. US\$39 billion), up 4.2% from previous year, generating a good tax revenue for Japan's central and local prefectural governments suffering deterioration in their tax revenue under a weak Japanese economy.

While Japanese cigarette market continues to show some stability, there are increasing indications that more stringent social and legal restrictions may be imposed eventually against smoking. The Ministry of Health and Welfare-commissioned task force, charged with the task of developing a policy guideline for the next 10 years on smoking as a matter of public health hazard, announced in February a 4-point policy guideline, pressing for a nation-wide public health enhancement program with appeals for (1)public dissemination of information and data on the impact on health of smoking, (2)elimination of smoking by minors, (3) segregation of smoking from non-smoking area in public places and offices across the country and (4) implementation of public health programs by local prefectural and municipal governments in support of smokers, anxious to quit or cut back their habit of smoking. Originally, 50% cut-back in the smoking population by the year 2010 was to be incorporated in the policy guideline but this proposition was removed as a result of the strong cigarette industry's lobby against it. How these government initiatives affects cigarette consumption in the near futures, however, remains to be seen.

-Tobacco, Unmfg., Total

PRODUCTION:

Purchasing of 1999 domestic crops of tobacco leaf by Japan Tobacco, Inc.(referred to hereunder as JT), Japan's only legally authorized buyer of tobacco leaf, started with purchasing of the Flue-Cured Leaf in Okinawa Prefecture on July 22,1999 and ended in Akita Prefecture on February 10, 2000.

According to the final count, 1999 domestic leaf production was 64,727 metric tons in terms of the farm sales weight, up slightly from 63,959 tons in the previous year, with the number of tobacco farmers perching at 24,198, down 1,319 from 25,517 in the year before. In a continuing downtrend of the number of tobacco growers, the number of Japanese tobacco leaf producers in 1999 represented 10.4% decline in 2 years.

Northeastern regions of Japan (ie. Tohoku region) where Burley leaf remains a major crop suffered climatic and weather abnormalities during the growing season of tobacco leaf but, in the final analysis, the farmers' net income from sale of the crops did not come out as badly as expected per kilogram of yield.

Due to the rapid aging of tobacco farmers and chronic problems of farm labor shortage, Japan's domestic tobacco leaf production is expected to continue to level off near-term.

Crop Area;

Crop area employed to produce 64,727 tons of leaf tobacco in 1999 totaled 24,757 hectares, up 2% from previous year. 1999 marked the first year in Japan's tobacco farming history when total planting area shrank below 25,000 hectares, a benchmark observed for decades by both tobacco growers and Japan Tobacco Inc. as a tobacco policy guideline. The year also marked the growth of per capita crop area (per tobacco farming household) to 102.3 are in 1999, up 3.2 are from previous year.

Miyazaki prefecture in Kyushu with 2,511 hectares stood out as NO.1 producer with the largest crop area for tobacco last year, followed by Kumamoto prefecture with 2,226 hectares. In terms of per capita crop area(ie. per tobacco farming household), Okinawa prefecture came out as the largest producer by prefecture with the per capita crop area of 331 are, with Saga prefecture ,also in Kyushu, perching as the distant 2nd largest producer with per capita area of 215 are in 1999.

Japan's Tobacco Deliberations Council, a tobacco policy-setting group consisting of 11 professional members representing administrators, tobacco growers and academic groups, developed a tobacco planting plan for the new growing season in 2000 at JT's request on July 28,1999. The new plan developed calls for total crop area of 25,135 hectares, broken down by type of leaf as follows.

CROP AREA BY TYPE OF LEAF TOBACCO(Hectares)					
Leaf Type	1998		1999		2000 1/
	Target	Actual	Target	Actual	Target
Flue-Cured 2/	17,714	17,195	17,443	16,927	17,131
Burley 3/	8,061	7,694	7,892	7,472	7,631
Light Air-Cured 4/	439	387	390	358	373
TOTAL	26,214	25,276	25,725	24,757	25,135

(Source: Japan Tobacco Inc.)

1/ Target crop area for the year, as authorized by Tobacco Deliberations Council. 2/ Consisting of 4 types of leaf.

3/ Consisting of 2 types of leaf. 4/ Consisting of 3 types of leaf.

In spite of this well-meant good growth planned for crop area, however, there continues to be a structural problem built into Japan's current tobacco farming sector, working as a strong inhibitor. According to an annual survey by tobacco grower groups as of the end of March, 2000, 24,173 hectares or 96% of the target plan have been contracted with farmers, down 3% (752 Ha.) from last year. The number of contracted farmers was also down 5.4% (1,316 persons) from last year, resulting in the total number of 23,128 farmers or per capita crop area of 104.5 are, up 2.5 are last year, for the following reasons.

- There were 101 new farmers (up 78.9 Ha.) and 5,792 traditional farmers with expansion in their planting area (up 566.4 are) participating in tobacco growing for the new season.
- These positive developments, however, were more than offset by 1,416 farmers giving up tobacco growing (down 711.5 Ha.) and 5,205 farmers with reduced planting area (down 685.7 Ha.), causing net loss in both planting area and the number of tobacco farmers available. Most farmers gave up tobacco growing because of the "natural" constraints due to their aging, illness and deaths.

12 prefectures accounted for 77.4% of the total crop area contracted or 18,713.5 hectares in 2000, with Miyazaki leading the roster again as follows.

Tobacco Crop Area by Prefecture in 2000.			
Prefecture	Crop Area	Prefecture	Crop Area
1) Miyazaki	2,521 Ha.	8) Nishi-Kyushu	1,523 Ha.
2) Kumamoto	2,215 Ha.	9) Okinawa	1,306 Ha.
3) Iwate	2,114.5 Ha.	10) Ibaragi	1,303 Ha.
4) Kagoshima	2,067 Ha.	11) Ohita	1,091 Ha.
5) Fukushima	1,922 Ha.	12) Niigata	985 Ha.
6) Aomori	1,666 Ha.	Total:	18,713.5 Ha.

Yield;

In contrast to the previous year, 1999 domestic farm production of leaf tobacco grew only slightly but the yield per hectare of crop area grew over 3 % from previous year, as shown in the table below.

PRODUCTION AND YIELD PER HECTARE FOR JAPANESE LEAF TOBACCO (Units: Production-Metric Tons; Yield: Kilogram/hectare)				
Leaf Type	1998		1999	
	Farm Production	Yield 1/	Farm Production	Yield 1/
Flue-Cured 2/	42,464 MT	2,470 Kg.	44,763 MT	2,640 Kg.
Burley 3/	20,458 MT	2,660 Kg.	19,085 MT	2,550 Kg.
Light Air-Cured 4/	1,038 MT	2,680 Kg.	880 MT	2,460 Kg.
TOTAL	63,960 MT	2,530 Kg.	64,727 MT	2,610 Kg.
% Growth (Yr./Yr.)	-6.6%	-5.2%	+ 1.2%	+ 3.2%

(Source: Japan Tobacco Growers Association)

1/ Weighted average yield per hectare. 2/ Consisting of 4 types of leaf. 3/ Consisting of 2 types of leaf. 4/ Consisting of 3 types of leaf.

Other than the potential impact of a chronic natural disaster hitting tobacco farms , which remains a constant possibility, no significant change is foreseeable in the crop yield this year.

Production Policy:

In the face of a long-standing and chronic downturn in Japanese tobacco farming sector in terms of rapidly aging farmers leading to the decline in farm labor and crop area as well as overall leaf production, one of the greatest challenges confronting policy makers continues to be the task of encouraging domestic production by providing tobacco growers with an economic incentive to grow tobacco leaf. Against this background, a decision was made by Tobacco Deliberations Council in July, 1999 to keep JT's basic purchase price structure at the same level as previous year for new crops in the year 2000, marking the 11th consecutive year in a row of such a pricing policy.

Another important policy decision made by the Council was reintroduction of an "advance pricing program", designed to assure tobacco growers of what to expect in the way of a financial return to their crops "in advance" before the crops are harvested and delivered to JT across the country. Designed to enable farmers to know in advance market values available for their crops providing a greater economic security and enabling them to better plan their farming schedules, this "advance pricing program" is being reintroduced for the first time in 27 years, starting with the crops harvested this year, and is based on a pre-determined set of pricing and leaf quality formulas, as reported in the Tobacco Annual Report of 1999. The question of how effective and viable this policy can be in enhancing domestic leaf production, however, remains to be seen.

Prices;

With JT purchasing all of Japanese domestic leaf production on the same valuation basis for crops as before with no basic change in the pricing formula, the consolidated average price for 1999 crops was 1,879 Yen per Kg., as reported in the historical table below. On the consolidated average basis, this value was up slightly

from previous year for total output of 64,727 metric tons purchased by JT.

AVERAGE PURCHASE PRICES BY TYPE OF LEAF (Yen per Kilogram; Farm Sales Weight Basis)					
Crop Year	Flue-Cured	Burley	Light Air-Cured	Average	Yr./Yr. Change
1999	1,915	1,794	1,894	1,879	+1.4%
1998	1,916	1,721	1,870	1,853	-2.5%
1997	1,974	1,745	1,950	1,901	+1.5%
1996	1,949	1,718	2,008	1,872	-3.6%
1995	2,011	1,789	2,055	1,941	-0.7%
1994	2,048	1,761	2,061	1,955	+2.8%
1993	1,979	1,749	2,051	1,901	-3.5%
1992	2,032	1,809	2,161	1,969	+5.2%
1991	1,931	1,721	2,131	1,872	+0.9%
1990	1,937	1,656	2,060	1,854	+0.8%
1989	1,940	1,570	2,060	1,840	-

JT's total outlay for domestic tobacco crops in 1999 was 121,620 million Yen (approx. US\$11 billion), up 2.5% from previous year, with tobacco growers in Miyazaki prefecture enjoying 12 % of the revenue and those in Kumamoto prefecture taking 10% of JT's total expenditure.

CONSUMPTION:

Information on JT's actual leaf tobacco consumption for cigarette production and inventory levels remains proprietary and cannot be confirmed.

However, indications are that the annual leaf consumption and year-end inventory level for tobacco leaf fluctuates around 200,000 metric tons a year. Post estimates that 35% to 40% of JT's total consumption is comprised of domestic-grown leaf, with the balance coming from imports. With Japanese domestic production shrinking in outlook over the long term, imports will continue to replace domestic leaf as a major share of their raw material requirements.

TRADE:

Imports;

- Japanese tobacco leaf imports, growing 3 % from previous year to 101,442 tons in 1998, declined 2.5% to 98,920 tons in 1999. However, the U.S. share as a source of Japan's imports last year grew 2.6 percentage points from previous year to 43.6% of the total, attaining 43,187 tons.
- In dollar value(Japan's customs basis), total imports reached \$548 million in 1999, also down 2.5 %

from previous year. However, the U.S. share as an exporter accounted for 56.9% of the total, up 4.1 percentage points from 1998.

Exports;

- Japan's tobacco leaf exports in 1999 totaled only 300 tons, up from 160 tons in the previous year. Destinations of the exports were just 2 countries; France and U.K, indicating the nature of shipments as non-commercial and irregular. With JT having acquired RJR-Nabisco's international cigarette manufacturing and sales operations outside the United States last year leading up possibly to more active sourcing of tobacco leaf overseas by JT, no significant raw material leaf export from Japan is foreseeable in the future.

While much depends on such variable factors as the future of domestic supply, currency exchange rates, Japanese cigarette market demands and, most importantly, the currently growing market penetration of manufactured cigarette imports, it is estimated that the importance to JT of imported leaf will increase by leaps and bounds, short-term.

Import Trade Matrix:

Import Trade Matrix			
Country	Japan		
Commodity	Tobacco, Unmfg., Total		
Time period	Jan.-Dec.	Units:	Metric Tons
Imports for:	1998		1999
U.S.	41653	U.S.	43187
Others		Others	
Brazil	20927	Brazil	17532
Malawi	10364	Zimbabwe	11534
Zimbabwe	7605	Malawi	5499
Greece	4716	Greece	4514
Turkey	3075	Italy	4805
China	2940	Turkey	3175
Zambia	1164	China	3137
Macedonia	1153	Thailand	813
Thailand	989	Tanzania	799
Argentina	802	Argentina	625
Total for Others	53735		52433
Others not Listed	6054		3300
Grand Total	101442		98920

Export Trade Matrix:

Export Trade Matrix			
Country	Japan		

Commodity	Tobacco, Unmfg., Total		
Time period	Jan-Dec	Units:	Metric Tons
Exports for:	1998		1999
U.S.	0	U.S.	0
Others		Others	
France	92	France	189
United Kingdom	68	United Kingdom	112
Total for Others	160		301
Others not Listed	0		0
Grand Total	160		301

POLICY:

As Japan's authorized monopoly for manufacture of cigarettes, JT continues to dominate Japan's leaf tobacco consumption. There is no specific trade barrier to leaf tobacco that can be identified, and the product enters Japan duty-free.

NEWS HIGHLIGHTS:

-A wrap-up of developments reported in the Japanese press, pertaining to JT's organization, business plans and tobacco industry activities during the last year.

- JT announced a plan to integrate RJR-Nabisco's international businesses outside the U.S. into its own organization by June 2000 in a step to standardize raw material procurement procedures and integrate marketing strategies of both firms' products for maximum synergistic effect on JT's business performance. (May, '99)
- JT to intensify program to manage a food business subsidiary as a stand-alone entity. With a focus on soft drinks and processed food businesses, JT owns 15 firms with 4,000 employees on the payroll, and the plan calls for sales revenue of 200 billion Yen with this entity by March, 2000, up 30% from previous year. (June, '99)
- JT buys out an automatic vending machine firm operating 3,000 vending machines with a sales revenue of over 40 billion Yen a year. The plan calls for more than doubling the turnover by March 2002 by integrating the business into its own business with 1,000 vending machines in Shikoku market. (June, '99)
- JT to launch a tie-in business with Meiji Milk Co, in the production and marketing of paper-packed chilled soft drinks, starting July, '99. The plan calls for intensification of soft drinks business to achieve 3 billion Yen sale revenue a year later. (June, '99)
- JT to launch fresh vegetables production and distribution business by contracting out 1,600 farmers to utilize new varieties of vegetable seedlings for "healthy foods" developed by JT's research and development team. (June, '99)

- JT buys out the food business(frozen foods, seasoning)of Asahi Chemicals Co. for integration into its own. Food is one of JT's 3 top strategic businesses, following cigarettes and pharmaceuticals. (July,'99)
- 5 cigarette filter manufacturers, subsidized by JT, to be integrated into one in Dec. '99 in order to help JT, the parent company, improve its business performance and cost competitiveness. (Aug. '99)
- JT and Asahi Glass Co. to jointly develop a biotech business through a genetic and microbiological modification technology to mass produce high-value protein in the foods. (Aug. '99)
- JT to introduce a new cigarette marketing program in Japan by assigning a total "regional" business and profit management responsibility to a salesman in a step to improve its marketing performance. (Oct. '99)
- JT purchases 0.5% share of a Korean cigarette firm, KT&G, newly listed on the Korean stock exchange. KT&G markets "Mild Seven" cigarettes for JT and Korea is considered second only to Taiwan as JT's key export market in Asia. (Oct. '99)
- JT increases capitalization with Can. \$3.25 billion in its Canadian subsidiary, JT Canada LLCII, in line with a plan to manage newly acquired RJR-Nabisco assets and business. (Oct.'99)
- JT joins a strategic alliance with tobacco industry's interest groups to lobby, successfully, against another cigarette tax hike newly proposed by certain political party interests to cope with the Government's mounting fiscal crisis. (Nov.-Dec.'99)
- JT to newly invest 100 billion Yen overseas by 2004 to update and modernize plant and equipment of its newly acquired RJR-Nabisco's international operations and also to save approx. 20 billion Yen in a cost-cutting campaign overseas. (Jan. 2000)
- Sumitomo Corp. to pull out of the cigarette marketing business totally by selling off its imported cigarette business with 1,000 on the payroll to BAT(British American Tobacco Group) by March 2000. BAT, selling brands such as "Kent" "Lucky Strike" and "Cool", will participate in direct marketing in Japan through 107 sales offices with annual turnover of 170 billion Yen.(Feb. 2000)
- JT announces a major business restructuring plan to save \$237 million(25 billion Yen) in both Japan and overseas during the 5-year phase between 2000 and 2004. The plan includes elimination during the phase of 4,500 jobs(4,500 employees)by limiting new hires or voluntary retirement, approx 14% of 33,000 on the payroll. It also includes elimination of 2,000 jobs overseas as well as reduction of JT's tobacco processing plants from the current level of over 20 into 10.(Feb.'99)
- JT announces a plan to terminate the cigarette production business of Manchester Tobacco Co. based in U.K, JT's wholly owned subsidiary since 1992. This decision is designed as a step to integrate JT's newly acquired RJR-Nabisco's operations to manage overseas business in the marketing JT's own brand as well as other RJR's, such as "Camel", "Winston" and "Salem". (Apr. 2000)

-Tobacco, Mfg. Cigarettes:**PRODUCTION:**

As is the case with information on JT's actual leaf consumption, JT's cigarette production data are not officially available. According to their sales data available, however, JT sold 250 billion cigarettes during JFY1999 ending March,2000, and it is estimated that their cigarette production was 262 billion pieces. When compared to the previous year of JFY1998, this was a decline of 1.4 % on the year-on-year basis.

Because of the changing market preferences, continuing for some time now, the share of non-filter production kept on shrinking in magnitude, sharing much less than 1% of total production. This downtrend is expected to continue for the future.

CONSUMPTION:

According to the Tobacco Institute of Japan, an international trade association of Japan Tobacco and foreign cigarette producers in business in Japan, 250.1 billion cigarettes of JT's domestic production were sold in 1999, down 2.9% from previous year. Sales of imported brands, on the other hand, totaled 82.1 billion, up 3.9% from previous year, and attained the market share of 24.7%, up 1.2 percentage points from 1998. Total domestic consumption of cigarettes of both domestic and imported brands was 332.3 million pieces, down 1.3% from previous year. The retail value in imported brands in Yen, exceeding a benchmark of 1 trillion Yen in previous year in the first turnaround in the history of imported cigarette business, posted 1,082.6 billion Yen in 1999, up 8.0% from previous year. While Japan's cigarette market showed only a modest decline in 1999, the growth of imported brands was most remarkable in contrast to JT's domestic brands, suffering a year-on-year decline in quantity but growing only 4.2% in retail value.

The historical table of cigarette consumption in Japan follows.

CIGARETTE CONSUMPTION BY YEAR, VOLUME & VALUE (Volume-Billion p'cs : Value-Billion Yen/Japanese Fiscal Year: Apr.-Mar.)				
Year/ Domestic Vs. Imports	Volume		Value	
	Sold	% Change	Sold	% Change
1999	332.2	-1.3%	4,260.0	+4.2%
Domestic:	250.1	-2.9%	3,177.4	+2.9%
Import:	82.1	+3.9%	1,082.6	+8.0%
Share(24.7%)				
1998	336.6	+2.6%	4,089.9	+4.9%
Domestic:	257.6	+1.2%	3,087.0	+3.8%
Import	79.0	+7.5%	1,002.8	+8.7%
Share(23.5%)				

1997	328.1	-5.8%	3,897.1	-2.5%
Domestic:	254.6	-5.9%	2,974.3	-2.8%
Import	73.5	-5.4%	922.8	-1.9%
Share(22.4%)				
1996	348.3	+4.1%	3,999.2	+4.3
Domestic:	270.6	+2.6%	3,058.6	+2.9%
Import	77.7	+9.4%	940.7	+9.2%
Share(22.3%)				
1995	334.7	+0.1%	3,832.7	+0.4%
Domestic:	263.7	-1.9%	2,971.6	-1.5%
Import	71.0	+8.4%	861.1	+7.6%
Share(21.2%)				
1994	334.4	+0.5%	3,818.3	+0.9%
Domestic:	268.9	-1.5%	3,018.0	-1.0%
Import	65.5	+9.7%	800.3	+9.2%
Share(19.6%)				
1993	332.6	+1.1%	3,781.7	+1.6%
Domestic:	272.9	+0.1%	3,049.0	+0.7%
Import	59.7	+6.2%	732.8	+5.8%
Share(17.9%)				
1992	328.9	+0.2%	3,721.6	+0.7%
Domestic:	272.7	-0.5%	3,029.3	+/-0%
Import	56.2	+3.6%	692.4	+3.7%
Share(17.1%)				
1991	328.3	+2.0%	3,696.5	+2.8%
Domestic:	274.1	+1.2%	3,028.9	+2.0%
Import	54.2	+6.1%	667.6	+6.8%
Share(16.5%)				

Consumer Taste Preferences;

The shift in consumer preferences toward milder cigarettes with increasingly lower tar and nicotine content is continuing and even intensifying. Information for trend in the changing consumer preferences in the cigarettes' tar and nicotine content, based on "the best-selling 100 brands", is made available openly through trade sources each year and the most outstanding feature last year was that the market share of cigarettes with the tar content of 3 mg. per piece advanced 0.9 percentage points from 4.7% in 1998 to 5.6% in 1999. When combined with the market shares of those with the lower-tar content of 1mg and 2mg, the combined share of "3 mg and lower" tar content was 19.4% last year, up 17.6% from previous year and up 13.2% in 1996. Conversely, the market share of a higher-tar content of 11 mg dropped to 12.4% in 1999, down from 13.4% in the previous year.

Another interesting feature of the market is that a similar relationship between the consumer tastes and downtrend in the lower-nicotine content exists. The share of 0.3 mg nicotine content, for example, was 4.6% in 1996 but grew up to 5.1% in the following year and, then, up to 6.4% in 1999. Due to a similar uptrend in the market shares of lower nicotine contents, the combined share of 0.3 mg. or less was 20.2% of the total

cigarette market in 1999, up from 14% 3 years earlier.

The table below indicates how the market has been reacting to tar and nicotine content of the cigarettes during the last 5 years.

Market Share by Tar Content & Year. (%)								
Year \ Cont.	1 mg	2 mg	3 mg	4-5 mg	6-7 mg	8-9 mg	10-11 mg	12-24 mg
1999	11.5	2.3	5.6	5.7	20.7	21.3	15.1	17.8
1998	11.0	1.9	4.7	6.0	20.9	21.5	16.1	17.9
1997	9.9	1.3	4.4	6.2	21.5	20.5	7.4	28.8
1996	8.4	1.0	3.8	5.2	22.9	21.1	7.9	29.7
1995	7.5	-	2.0	4.4	23.7	22.8	8.4	31.2
Market Share by Nicotine Content & Year. (%)								
Year \ mg.	0.1	0.2	0.3	0.4-0.5	0.6-0.7	0.8-0.9	1.0-1.1	1.2-2.4
1999	11.5	2.3	6.4	24.3	21.7	16.0	4.5	13.3
1998	11.0	1.9	5.3	25.0	21.9	16.5	4.8	13.6
1997	9.9	1.3	5.1	25.8	9.6	29.8	5.7	12.8
1996	8.4	1.0	4.6	26.3	9.6	31.2	5.5	13.4
1995	7.5	-	2.1	27.0	11.5	33.7	4.0	14.2

To be exact, availability on the market of the “right” brand with the “right” cigarettes with the “right” tar and nicotine content at the “right” time for smokers, constrained by cigarette manufacturers’ varied marketing schedules for new brands, has something to do with the change and trend in consumer tastes. However, social pressures against outright smoking or restraint in smoking, still growing strong across the country, and growing awareness among smokers of the habit as a personal and public health hazard, may be an indication that this downtrend in tar and nicotine will continue, leading up to a steady and eventual, if not drastic, decline in consumption over time.

Smoker Survey;

According to JT’s smoker survey conducted for 1999, Japanese cigarette market leveled off last year, with the male smokers dropping 1.2% in number but female smokers offsetting the decline with 1.2% growth, as compared to the previous year. Market reactions to 2 consecutive price hikes for cigarettes, implemented in the year before, were at the forefront of concerns confronting survey organizers but they were not as negative as anticipated, according to the findings, with demands perching still stable, as shown in the historical table below.

JAPAN'S SMOKING RATE AND POPULATION 1/						
Year	Smoking Rate(%) 2/			Smoking Population (10,000) 3/		
	Male	Female	Total	Male	Female	Total
1999	54.0	14.5	33.6	2,608	749	3,357
1998	55.2	13.3	33.6	2,647	681	3,328
1997	56.1	14.5	34.6	2,669	736	3,405
1996	57.5	14.2	35.1	2,708	714	3,422
1995	58.8	15.2	36.3	2,736	755	3,491
1994	59.0	14.8	36.2	2,716	727	3,443
1993	59.8	13.8	36.1	2,719	670	3,389
1992	60.4	13.3	36.1	2,712	637	3,349
1991	61.2	14.2	36.9	2,715	672	3,387
1990	60.5	14.3	36.7	2,651	668	3,319
1989	61.1	12.7	36.1	2,643	587	3,230

(Source: Japan Tobacco Inc.)

1/ Based on analysis of 11,138 respondents(69.6 % response ratio) to JT's survey in May 1999. 2/ Statistical average rate. 3/ Statistical estimation.

Some other interesting findings of this survey by age bracket, frequency of smoking and regional differences are shown in the tables below. (Source: Japan Tobacco Inc.)

1999 Smoking Rate By Sex & Age Bracket				
Age Bracket	Male		Female	
	Smoke Rate	Change(99/98)	Smoke Rate	Change(99/98)
Over 60 yrs.	38.6 %	-2.3 points	6.8 %	+0.3 points
50 - 59 yrs.	54.7 %	+/- 0	13.2 %	+0.8 points
41 - 49 yrs.	63.0 %	+2.8 points	17.1 %	+3.9 %
31 - 39 yrs.	62.0 %	+0.6 points	17.6 %	+0.9 points
21 - 29 yrs.	60.4 %	-3.3 points	23.6 %	+0.1 points

Daily Cigarette Consumption by Sex & Age Bracket in 1999. (Pieces)				
Age Bracket	Male		Female	
	Quantity	Change(99/98)	Quantity	Change(99/98)
Over 60 yrs.	21.9	+0.2	15.6	-1.9
51 - 59 yrs.	27.9	+0.8	18.6	-1.4
41 - 49 yrs.	27.2	+/-0	17.0	-0.5
31 - 39 yrs.	23.8	-0.5	15.1	-0.2
21 - 29 yrs.	21.1	+/-0	14.9	-1.1
Daily Average Consumption of "Daily Smokers" by Sex				
No. of Pieces	24.3	+0.2	16.1	-0.1
Smoking Rate by Market Region & Sex (%)				
Market Region	Rate	Change(99/98)	Rate	Change(99/98)
Hokkaido 1/	58.6	-4.8 points	25.4	-0.7 points
Tohoku 2/	60.9	-2.1 points	11.2	-1.2 poinys
Kanto 3/	53.4	-1.2 points	18.1	+1.8 points
Hokuriku 4/	51.4	-6.1 points	14.0	+2.8 points
Tokai 5/	54.3	+1.1 points	12.9	+1.8 points
Kinki 6/	55.4	+0.4 points	13.1	-1.7 points
Chugoku 7/	48.5	-6.7 points	10.2	+3.8 points
Shikoku 8/	47.7	-6.3 points	8.9	-1.2 points
Kyushu 9/	53.2	+1.3 points	11.1	+2.6 points

Notes:

1/ Covers 11 major cities in the northern island. 2/ Covers 6 prefectures in the northeast.

3/ Covers 7 prefectures in central Japan. 4/ Covers 8 prefectures on the northwest..

5/ Covers 3 prefectures on the central east.. 6/ Covers 6 prefectures in the southwest.

7/ Covers 4 prefectures in the southeast. 8/ Covers 4 prefectures in Shikoku island.

9/ Covers 7 prefectures in Kyushu island.

TRADE:

Imports;

- In quantity, Japan's total cigarette imports grew 2.5% from 1998 to 82,587 million pieces in 1999. The U.S. share was also 94%, same as previous year.
- In dollar value, cigarette imports in 1999 totaled US\$2.142 billion in the Japanese customs value, up

15.3% from previous year. The U.S. share as an exporter to Japan was a dominant 94% of the total value at US\$2.017 billion, up also 15% from previous year.

Exports:

- Total export quantity was 13,497 million pieces in 1999, up 22.6% from previous year. Taiwan's share as an export market accounted for 53%, South Korea for 18% and the U.S. share for 15%.
- Japanese cigarette export value totaled \$255 million in 1999, up 32.8% from previous year. As an export market, Taiwan accounted for 60%, South Korea for 18% and the U.S. for 12% in 1999.

Import Trade Matrix

Import Trade Matrix			
Country	Japan		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	Million pc's
Imports for:	1998		1999
U.S.	75768	U.S.	77874
Others		Others	
Germany	1764	Germany	2400
United Kingdom	1918	United Kingdom	1739
China	190	China	151
Malaysia	492	Malaysia	144
Austria	193	Austria	96
Netherlands	88	Netherlands	78
Indonesia	43	Indonesia	41
France	36	France	40
Switzerland	39	Switzerland	9
Poland	12	Poland	8
Total for Others	4775		4706
Others not Listed	17		7
Grand Total	80560		82587

Export Trade Matrix

Export Trade Matrix			
Country	Japan		
Commodity	Tobacco, Mfg., Cigarettes		
Time period	Jan-Dec	Units:	Million pc's
Exports for:	1998		1999
U.S.	990	U.S.	2038
Others		Others	

Taiwan	5894	Taiwan	7105
Korea, South	1880	Korea, South	2410
Tajikistan	473	Iran	366
Afganistan	324	Hong Kong	336
United Arab Emir	196	Tajikistan	275
Singapore	182	Singapore	226
Hong Kong	176	Chile	139
Chile	162	Uruguay	112
Russia	114	Panama	64
Total for Others	9401		11033
Others not Listed	619		426
Grand Total	11010		13497

POLICY

No significant change in Japan's tobacco and cigarette policy is detectable at this time, at least in the short-term perspective. 3 key developments during the last year, as described below, overcome somehow with a strong industry-wide lobby against fulfillment, are indicative of the current market environment surrounding the industry.

1) Newly Proposed Cigarette Tax Hike Prevented;

Under the government's increasingly deteriorating conditions of an escalating fiscal deficit affecting both central and local government finances under a stagnant economy, a proposal was made in December last year among political circles pressing for another cigarette tax hike. On the grounds that the prices of Japanese cigarettes are perching lower than other countries by international comparison, perching at 30% of those in U.K. and 50 % of those in the U.S., this proposal initially called for a hike of 2 more Yen per piece in a pack of 20 cigarettes priced at 250 Yen, thereby raising the cigarette tax level up to 9.072 Yen per piece from the current 7.072 Yen., with the idea of raising approx. 50 billion Yen (approx. \$4.8 billion)a year in tax revenue. Currently, the cigarette tax revenue by law is split evenly between central and local governments at the rate of 3.536 Yen per piece and the idea of how this split should be revised remained an issue but the proposal represented a serious blow potentially to the cigarette industry in late 1999.

Understandably, all of JT and domestic tobacco and Japanese cigarette industry groups formed a strategic alliance to lobby strongly against introduction of this potential "bill" to be taken into the Japanese legislature to successfully "kill" it in the final analysis.

2) Sale of the Japanese Government stock of JT...still up in the air.

Out of approx. 2 million shares on the capital market issued by JT, Japanese Government still owns 1.33 million shares or approximately 66.5%. In the past, the government share was sold off on the stock market in two parcels, totaling 670,000 shares. The idea of generating new revenue by selling remainder of the government stock was raised officially in the aftermath of a new tax hike failing to materialize. Either because of the Japanese overall stock market remaining depressed with possibly unacceptable returns to the sale or because of the risk of an adverse impact on the economic stimulus measures looking less than tolerable, no formal decision has yet been made.

3) Quantitative Restriction Target on Cigarette Consumption of a Government Task Force Against Smoking Lifted but New Policy Guidelines to Regulate Smoking Established.

The 17-member "Committee to Explore Measures On Smoking in the 21st Century" of professional experts, commissioned in 1998 by the Ministry of Health and Welfare, carried on its activities which included hosting public hearings in major Japanese cities, as reported in the 1999 Tobacco annual report, to announce openly a preliminary report in August last year. Most controversial was an inclusion in the report of a quantitative restriction target in cigarette consumption, posting "50% cut in the Japanese smoking population" as a government policy guideline to be achieved by the year, 2010.

While the report was to be used in support of a national "public health enhancement program" to be promoted under the government initiatives, addressing not only smoking but other "public health issues" such as alcohol, it stirred up a massive and intense negative reaction from the tobacco and cigarette industry, resulting in a subsequently strong opposition to the policy guideline as a serious menace to the industry's future.. As a result of their intense lobby, the "restriction target for 50% cut in smoking" was lifted finally at the committee's final session in February, 2000. However, this government initiative remained intact in the long run, leading up to development of the following "policy guidelines" to be observed, starting April 2001, by all of Japanese local prefectures and municipalities as a formal "public health enhancement program..

1) Disseminate information and data among the public about impact of smoking on the human health.

Current level of public awareness in impact of smoking on health.(Source: Consumer survey of 1998)

Rate of Respondents with " Yes" answers to the chance of getting the following illnesses

Lung cancer-84.5%. Asthma-59.9% Bronchitis-65.5% Heart disease-40.5%

Cerebral apoplexy-35.1%

Ulcer-34.1%. Negative impact on pregnancy-79.6%. Tooth illness-27.3%

2) Eliminate smoking by minors.

Current situation(Source:Smoking rate as of survey in 1996)

Freshman at junior high school(age 12-13): Male-7.5%:

Female-3.8%

Senior at senior high school(Age 16-17): Male-36.9%:

Female-15.6%

3) Insure segregation of smoking from non-smoking area in public places and offices and places of work, and disseminate information on the most effective methodology for "segregated smoking area".(To be developed in JFY2000)

4) Implement public health programs throughout the local prefectural, municipal and regional governments to support smokers anxious to quit or cut back the habit .

Marketing:

A wrap-up of marketing features and news highlights in cigarette retailing in Japan.

-Cigarette Vending Machines:

- The importance of vending machines to cigarette retailing continued during the last year, with the national average share of vending machine sales in total cigarette sales perching in the 40% range but reportedly achieving 70-80% of total cigarette sales in some urban markets, such as Tokyo and Osaka.

Sales value per machine a year in the national average in 1999 was 3,190,000

Yen(approx.\$29,300.00),

up 100,000 Yen(approx. \$917.00) from previous year.

- The number of vending machines in operation as of the end of 1999 totaled 528,700 units, as shown in the table below, up 0.3% from previous year.

Number of Cigarette Vending Machines on the Market(1,000 units)		
Year	Units	% Change
1999	528.7	+0.3%
1998	527.1	+4.2%
1997	505.9	+0.3%
1996	504.5	+1.1%
1995	498.8	+0.9%
1994	494.0	-1.0%
1993	495.0	-0.9%
1992	495.9	+6.9%
1991	489.0	+13.4%

PSD Tables:

-Tobacco, Unmfg. Total.

PSD Table						
Country	Japan					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	26214	25276	25725	24757	0	25135
Beginning Stocks	280235	292673	252735	277455	221681	252255
Farm Sales Weight Prod	67100	63959	63960	64727	0	65500
Dry Weight Production	61000	58300	58146	60293	0	59000
U.S. Leaf Imports	38500	41653	34650	43187	0	45000
Other Foreign Imports	53000	59789	58300	55733	0	59000
TOTAL Imports	91500	101442	92950	98920	0	104000
TOTAL SUPPLY	432735	452415	403831	436668	221681	415255
Exports	2500	160	2400	301	0	150
Dom. Leaf Consumption	70500	70500	71250	72500	0	73000
U.S. Leaf Dom. Consum.	53000	52700	53000	54600	0	55000
Other Foreign Consump.	54000	51600	55500	57012	0	56000
TOTAL Dom. Consumption	177500	174800	179750	184112	0	184000
TOTAL Disappearance	180000	174960	182150	184413	0	184150
Ending Stocks	252735	277455	221681	252255	0	231105
TOTAL DISTRIBUTION	432735	452415	403831	436668	0	415255

-Tobacco, Unmfg. Flue-Cured.

PSD Table						
Country	Japan					
Commodity	Tobacco, Unmfg.,Flue- Cured				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin		01/1998		01/1999		01/2000
Area Planted	17714	17195	17714	16927	0	17131
Beginning Stocks	165541	165541	143541	146381	121541	125681
Farm Sales Weight Prod	43000	42464	43000	44763	0	45000
Dry Weight Production	39000	39000	39000	40300	0	40500
U.S. Leaf Imports	22500	30000	22500	31000	0	31500
Other Foreign Imports	23500	17000	23500	15000	0	16000
TOTAL Imports	46000	47000	46000	46000	0	47500
TOTAL SUPPLY	250541	251541	228541	232681	121541	213681
Exports	2000	160	2000	200	0	100
Dom. Leaf Consumption	46000	46000	46000	46000	0	45000
U.S. Leaf Dom. Consum.	37000	37000	37000	38500	0	36000
Other Foreign Consump.	22000	22000	22000	22300	0	19500
TOTAL Dom. Consumption	105000	105000	105000	106800	0	100500
TOTAL Disappearance	107000	105160	107000	107000	0	100600
Ending Stocks	143541	146381	121541	125681	0	113081
TOTAL DISTRIBUTION	250541	251541	228541	232681	0	213681

-Tobacco, Unmfg. Burley.

PSD Table						
Country	Japan					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Area Planted	8061	7694	8061	7472	0	7631
Beginning Stocks	100972	100972	97472	88972	93972	74372
Farm Sales Weight Prod	23000	20458	23000	19085	0	20000
Dry Weight Production	21000	19000	21000	17500	0	18000
U.S. Leaf Imports	16000	10000	16000	10000	0	12000
Other Foreign Imports	22000	21000	22000	20000	0	10000
TOTAL Imports	38000	31000	38000	30000	0	22000
TOTAL SUPPLY	159972	150972	156472	136472	93972	114372
Exports	500	0	500	100	0	0
Dom. Leaf Consumption	23000	23000	23000	23000	0	24300
U.S. Leaf Dom. Consum.	16000	16000	16000	16000	0	17500
Other Foreign Consump.	23000	23000	23000	23000	0	20000
TOTAL Dom. Consumption	62000	62000	62000	62000	0	61800
TOTAL Disappearance	62500	62000	62500	62100	0	61800
Ending Stocks	97472	88972	93972	74372	0	52572
TOTAL DISTRIBUTION	159972	150972	156472	136472	0	114372

-Tobacco, Mfg. Cigarettes.

PSD Table						
Country	Japan					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	1998	Preliminary	1999	Forecast	2000
	Old	New	Old	New	Old	New
Market Year Begin	01/1998		01/1999		01/2000	
Filter Production	186851	265850	186851	262004	0	264000
Non-Filter Production	1199	1200	1199	1106	0	1250
TOTAL Production	188050	267050	188050	263110	0	265250
Imports	80560	80560	80560	82587	0	83000
TOTAL SUPPLY	268610	347610	268610	345697	0	348250
Exports	11010	11010	11010	13497	0	14500
Domestic Consumption	257600	336600	257600	332200	0	333750
TOTAL DISTRIBUTION	268610	347610	268610	345697	0	348250